VZCZCXRO0575
PP RUEHMA RUEHPA
DE RUEHOS #0473/01 3421531
ZNR UUUUU ZZH
P 081531Z DEC 09
FM AMCONSUL LAGOS
TO RUEHC/SECSTATE WASHDC PRIORITY 1102
INFO RUEHZK/ECOWAS COLLECTIVE
RUEHUJA/AMEMBASSY ABUJA 0657
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 03 LAGOS 000473

SENSITIVE
SIPDIS

DEPT PASS TO USTDA-PAUL MARTIN, EXIM-JRICHTER AND KJACKSON
DEPT PASS TO USTR-AGAMA
DEPT PASS TO OGIC
JOHANNESBURG FOR NAGY
TREASURY FOR TONY IERONIMO AND ADAM BARCAN
DOC FOR 3317/ITA/OA/BURRESS AND 3130/USFC/OIO/ANESA/REED

E.O. 12958: N/A
TAGS: EFIN ECON PGOV NI
SUBJECT: THE TRUE SCALE OF THE NIGERIAN BANKING CRISIS

SUMMARY

¶1. (SBU) Former and current employees of Citibank participated in a November 13 discussion on the banking sector and ongoing reforms. They see green shoots of recovery on the horizon, but banking leaders in Nigeria took part in outright stealing. The end result could be 1.8 trillion naira (USD 12 billion) to 4 trillion naira (USD 26.7 billion) in impaired assets. Banks cannot be allowed to fail as too many people would be affected without a social safety net. Entrepreneurs and manufacturers see this time as an opportunity for change in how they do business in Nigeria. END SUMMARY.

DISTINGUISHED ALUMNI RETURN TO CITIBANK

¶2. (SBU) Former and current employees of Citibank participated in a on November 13 roundtable discussion at the bank,s Lagos headquarters entitled, &The Great Re-Calibration: Navigating the New Economic Landscape - Challenges, Realities and Opportunities.8 Panelists included Oceanic Bank CFO Oyinkan Adewale, Bank PHB CEO Cyril Chukwuma, Dangote Executive Director Uzo Nwankwo, and Farafina Books CEO Muhtar Bakare. The event was sponsored by Citibank in honor of its twenty-fifth anniversary in Nigeria. A panel discussed recent activities regarding the banking sector.

GREEN SHOOTS OF RECOVERY

¶3. (SBU) Lagos Business School Economics Professor Doyin Salami in his financial reform talk referred to the "green shoots of recovery after the successful global attempt to avert a depression." The key element in this recovery was the role of the financial sector in avoiding widespread panic. The impact to Nigeria was delayed, according to Salami, in that the global events of 2007 and 2008 are still adversely affecting Nigeria. There are more crises headed towards Nigeria since GON revenue is impaired due to falling oil prices and unrest in the Niger Delta remains a long-term threat to production. A full GON financial accounting is not possible because GON spending activity is not clear. The challenge is not to frighten Nigeria into a deeper recession.

¶4. (SBU) The proposed GON 2010 budget is based on the assumption of two million barrels of oil being produced per day. This will happen as long as amnesty holds, Salami continued. Local politics will increasingly focus on the 2010 elections. . Where will the economy be in 2010? Entrepreneurs and manufacturers are in deep trouble due to the lack of electricity.

NIGERIAN BANKS RUN AMOK BY NON-BANKERS

¶5. (SBU) The world outside Citibank is very different from the world inside, according to Ms. Adewale. Western banks in Western countries failed even though they were run by professional bankers; however, Nigerian banks failed because they were run by public relations (PR) people with no clue about the banking business. The regulations in Nigeria allowed this to happen even after the first recapitalization round, where banks were required to have USD 200 million in capital. The PR people were good at raising money, but horrible at managing it. Managers from small banks took on the management of large banks without any training or experience. Risk management was non-existent.

¶6. (SBU) Nigerian bank consolidation in 2004 created "strange bedfellows", Adewale said. Mergers occurred between banks with different philosophies, no synergy, and no cost savings incurred. The driving force for the mergers was to obtain a banking license. The CBN thought that by having banks merge, they would become larger and have more diversified ownership. This did not happen. Share

ratios upon merging were one-to-one, thereby keeping the same people in charge. Banks hired lawyers to rewrite the accounting rules on goodwill. Post-merger audits were abolished.

¶7. (SBU) The banks were encouraged to embark on a second recapitalization round for USD 1 billion in capital, Adewale continued. This amount was required to manage Nigeria's foreign exchange reserves. That Nigerian banks did not know how to manage foreign exchange reserves was not seen as an impediment. The CBN did not verify that the money was actually raised. The result of the two recapitalization rounds was 25 "mega banks" that were only "mega" on paper.

OUTRIGHT STEALING

¶8. (SBU) An unnamed bank had 400 branches but did not know what was happening at each location. International branches opened, without planning or understanding of market risk. Banks knew neither the risks in Nigeria, nor abroad, stated Adewale. The banks seemed solvent at their core, but their subsidiaries had problems. Excessive lending concentrating on strange clients with no "Tier One" clients. Adewale went so far as to state that such bankers engaged in outright stealing.

USD 12 BILLION IN IMPAIRED ASSETS

¶9. (SBU) Bank PHB CEO Chukwuma said that 1.8 trillion naira (USD 12 billion) in toxic assets exists. Chukwuma calculated the total in three parts. First, one trillion naira (USD 6.7 billion) was claimed have been raised in the two recapitalization rounds when, in reality, only half of that amount was raised. An estimated 500 billion naira (USD 3 billion) existed only on paper. Second, Banks made one trillion naira (USD 6.7 billion) in margin loans. The Nigerian stock exchange (NSE) declined precipitously between March and October of 2009 which led to a 500 billion naira

(USD 3 billion) loss in margin loans. Third, the rapid expansion of credit during the two recapitalization rounds created 800 billion naira (USD 5.3 billion) in non-performing loans.

¶10. (SBU) An unidentified Citibank employee suggested that the amount of toxic assets could be even higher. At the peak of the NSE in March 2009, the market capitalization was 13 trillion naira (USD 8.7 billion). The NSE is now at 5 trillion naira (USD 33 billion) after posting an 8 trillion naira (USD 53 billion) loss. Banks made up half of this loss or 4 trillion naira (USD 26.7 billion).

WHY NOT LET BANKS FAIL?

¶11. (SBU) Citibank Corporate Financial Group Manager Carl Devin asked, "Why not just let the banks fail if they are in such a deep hole?" The panelists answered that the cost to liquidate would lead to more problems. It is easier to keep the banks alive. An average of 7,000 direct and 13,000 indirect staff work for each of the eight troubled banks, for a total of 160,000 workers, panel members reported.

IMPACT ON ENTREPRENEURS AND MANUFACTURING

¶12. (SBU) The banking reforms are an opportunity to re-calibrate the economy, according to Farafina Books CEO Muthar Bakare. This is an ideal time to look at the commercial culture in Nigeria, how business is done and how it relates to banking reforms. Almost 350 manufacturers have closed their shops in 2009 due to the credit freeze, according to Dangote Director Nwankwo. Multiple and duplicate regulations and taxes discourage new businesses. Taxes must be paid before a business can be set up.

¶13. (SBU) Instead of giving 1.2 trillion naira (USD 8

billion) to the banks, Nwankwo thought it better to give it directly to the entrepreneurs. Currently an entrepreneur must offer a house to secure a 90-day loan. Most businesses are cash-flow operations due to this lack of credit. A recent trend has seen Nigerians setting up business in Ghana and selling back into Nigeria, according to Nwankwo.

COMMENT

¶14. (U) The true scale of the Nigerian banking problem is emerging as scrutiny of the sector intensifies. The CBN,s initial capital injection of over 600 billion naira (USD 4 billion) is only the beginning. Many more resources will have to be devoted to have ¬ one bank fail8 as CBN governor Sanusi has stated. Allocation of such resources will have a substantial impact on the Nigerian Federal budget, but not providing assistance will impact the flow of credit which, along with reliable electricity, is crucial to developing the Nigerian economy. END COMMENT
BLAIR